

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**OSLO REINSURANCE COMPANY (UK) LIMITED**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

Registered Number:

1038441

## OSLO REINSURANCE COMPANY (UK) LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The directors of Oslo Reinsurance Company (UK) Limited have pleasure in submitting their report together with the financial statements for the year ended 31 December 2005.

#### PRINCIPAL ACTIVITIES

On 24 November 1994, the directors of Oslo Reinsurance Company (UK) Limited announced that the Company would cease to write new and renewal business with immediate effect. Prior to this decision Oslo Reinsurance Company (UK) Limited wrote non-life insurance and reinsurance business in the London Market.

Claims continue to be paid in full and the directors intend to continue the operations of the Company in order to achieve an orderly run-off of its insurance operations.

The directors decided in 1996, with Department of Trade and Industry agreement, to transfer the day to day operations of the company to Oslo Reinsurance Company ASA (in Oslo, Norway). The transfer of Non-Agency activities was completed 30 June 1997. The Company has retained the services of a UK-director to ensure the timely processing and settlement of all claims.

The Company's parent company was in 1999 purchased by Storebrand Skadeforsikring AS, the general insurance Company in the Norwegian Storebrand group, and regulatory approval was given on 20 December 1999. The Company was from that date on included in the Storebrand Group.

The company is exposed to financial risk, mainly through its technical provisions and the financial assets supporting those provisions. The most significant risk to the remaining technical provisions arise out of participations in Underwriting Agencies and/or Underwriting Pool's during the 1970's and 1980's, which combined represent in excess of 90% of the total estimated liabilities and the long tail nature of some of those liabilities, the largest of which is the participation in the Willis Faber Underwriting Management Pool (WFUM). These are discussed in detail in notes 17 and 18. The key financial risk is that proceeds from financial assets are not sufficient to fund claims as they fall due.

The company manages these risks by:

- regular reviews of the technical provisions by both external and internal actuaries;
- regular review of credit worthiness of reinsurers and any required provisions;
- investment in only high grade bonds and/or cash deposits, matching foreign currency liabilities to minimise the impact of exchange rate movements; and
- active participation - representation within the proposed WFUM Scheme Closure Project together with other Pool run-off evaluation projects.

#### RESULTS AND DIVIDENDS

The results are shown on pages 5 and 6. The directors do not recommend the payment of a dividend (2004: NIL)

#### DIRECTORS

The directors, who served throughout the year, unless indicated otherwise, were;

J.C.H. Endresen	Norwegian	Chairman
B.M. Skordal	Norwegian	
T. M. Cox	British	
R.K. Papworth	British	Managing Director

No director has any disclosable interest in the shares of this Company or any other group company.

**OSLO REINSURANCE COMPANY (UK) LIMITED**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Auditor**

A resolution is to be proposed at the Annual General Meeting for the re-appointment of Deloitte & Touche LLP as auditor to the Company.

By order of the Board

R. K. Papworth  
Secretary  
London

March 2006

**OSLO REINSURANCE COMPANY (UK) LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OSLO  
REINSURANCE COMPANY (UK) LIMITED**

We have audited the financial statements of Oslo Reinsurance Company (UK) Limited for the year ended 31 December 2005 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and

the financial statements have been properly prepared in accordance with the Companies Act 1985.

*Emphasis of matter – technical provisions and material uncertainties*

Without qualifying our opinion, we draw attention to the disclosures made in notes 17 and 18 concerning the amounts provided in respect of liabilities arising from asbestos claims and claims arising from business written on behalf of the company by Willis Faber Underwriting Management Limited, and the related recoveries from reinsurers. As explained in notes 17 and 18 the company's ultimate net liability may vary as a result of subsequent information and events and may result in material adjustments to the amounts provided. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made.

**Deloitte & Touche LLP**

*Chartered Accountants and Registered Auditors  
London  
March 2006*

## OSLO REINSURANCE COMPANY (UK) LIMITED

### PROFIT AND LOSS ACCOUNT: Technical account - general business for the year ended 31 December 2005

	<i>Note</i>	2005	2004
		£	£
Earned premiums, net of reinsurance			
Gross premiums written		45,595	27,142
Outwards reinsurance premiums		<u>(14,989)</u>	<u>(80,748)</u>
		30,606	(53,606)
Allocated investment return transferred from the non-technical account		608,745	463,513
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(7,224,478)	(2,246,640)
Reinsurers' share		<u>6,807,149</u>	<u>2,762,450</u>
		<u>(417,329)</u>	<u>515,810</u>
Change in the provision for claims			
Gross amount		8,286,767	(3,161,901)
Reinsurers' share		<u>(9,136,731)</u>	<u>975,502</u>
		<u>(849,964)</u>	<u>(2,186,399)</u>
Claims incurred, net of reinsurance		(1,267,293)	(1,670,589)
Net operating expenses	5	(5,408)	218
Sub-total (balance on the technical account for general business)		<u>(633,350)</u>	<u>(1,260,464)</u>

The notes on pages 10 to 18 form part of these financial statements

## OSLO REINSURANCE COMPANY (UK) LIMITED

### PROFIT AND LOSS ACCOUNT: Non-Technical account for the year ended 31 December 2005

	Note	£	2005 £	£	2004 £
Balance on the general business technical account			(633.350)		(1.260.464)
Investment income	6	1.743.157		1.726.735	
Unrealised gains on investments		4.564		381.660	
Investment expenses and charges	7	(177.844)		(1.234.251)	
Unrealised losses on investments		<u>(531.015)</u>		<u>(4.564)</u>	
		1.038.862		869.580	
Allocated investment return transferred to the general business technical account		<u>(608.745)</u>		<u>(463.513)</u>	
			<u>430.117</u>		<u>406.067</u>
Loss on ordinary activities before taxation			(203.233)		(854.397)
Tax on loss on ordinary activities	10		<u>-</u>		<u>-</u>
Loss for the financial year			<u>(203.233)</u>		<u>(854.397)</u>

The above results relate to discontinued activities.

The notes on pages 10 to 18 form part of these financial statements

# OSLO REINSURANCE COMPANY (UK) LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2005

	2005 £	2004 £
Loss for the financial year	(203.233)	(854.397)
Currency translation differences on foreign currency net investments	(231.611)	84.322
Total recognised gains and losses relating to the year	<u>(434.844)</u>	<u>(770.075)</u>

The notes on pages 10 to 18 form part of these financial statements



# OSLO REINSURANCE COMPANY (UK) LIMITED

## BALANCE SHEET as at 31 December 2005

	Note	£	2005 £	£	2004 £
<b>ASSETS</b>					
<b>INVESTMENTS</b>					
Other financial investments	11	27,590,790		25,938,133	
Deposits with ceding undertakings		<u>11,145</u>		<u>13,969</u>	
			27,601,935		25,952,102
<b>REINSURERS SHARE OF TECHNICAL PROVISIONS</b>					
Claims outstanding - Reinsurance amount	17		13,869,981		21,049,722
<b>DEBTORS</b>					
Debtors arising out of direct insurance operation	12	17			
Debtors arising out of reinsurance operations		3,253,677		3,937,621	
Other debtors	13	<u>24,810</u>		<u>11,897</u>	
			3,278,504		3,949,518
<b>OTHER ASSETS</b>					
Cash at bank and in hand			3,845,945		3,090,719
<b>PREPAYMENTS AND ACCRUED INCOME</b>					
Accrued interest			251,076		314,617
<b>TOTAL ASSETS</b>			<u>48,847,441</u>		<u>54,356,678</u>

The notes on pages 10 to 18 form part of these financial statements

# OSLO REINSURANCE COMPANY (UK) LIMITED

## BALANCE SHEET as at 31 December 2005 (continued)

	Note	£	2005 £	£	2004 £
<b>LIABILITIES</b>					
<b>CAPITAL AND RESERVES</b>					
Called up share capital	14	26.000.000		26.000.000	
Profit and loss account	15	<u>(13.358.091)</u>		<u>(12.923.247)</u>	
Equity shareholder's funds	16		12.641.909		13.076.753
<b>TECHNICAL PROVISIONS</b>					
Claims outstanding - Gross amount	17		32.643.953		37.566.721
<b>DEPOSITS RECEIVED FROM REINSURERS</b>					
			112.347		126.364
<b>CREDITORS</b>					
Creditors arising out of reinsurance operations		2.362.821		2.305.764	
Other creditors		<u>147.606</u>		<u>81.555</u>	
			2.510.427		2.387.319
<b>ACCRUALS AND DEFERRED INCOME</b>					
			938.805		1.199.521
<b>TOTAL LIABILITIES</b>					
			<u>48.847.441</u>		<u>54.356.678</u>
			0		

These financial statements were approved by the board of directors on

March 2006 and were signed on its behalf by:

Ray K. Papworth  
Managing Director

The notes on pages 10 to 18 form part of these financial statements

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

### 1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements comply with accounting standards and with the revised Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers, "the ABI SORP", in December 2005. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments.

Having regard to the net asset position of the company, the Directors have reviewed in detail the adequacy of the gross and net insurance funds in total and with particular reference to the matters referred to in notes 17 and 18, and consider them to be adequate. Should any future adjustments to liabilities and assets arising from the uncertainty described in notes 17 and 18 be substantial, adjustments to the insurance fund could reduce the free assets of the company to the extent that the company was unable to continue to operate as a going concern.

On 24 November 1994, the company was placed in run-off. No provision has been made for the future costs of running off the operations, estimated at £2.5 m, as projected investment income exceeds the present estimate of such expenses by approximately £0.7m (2004: £0.6 m). The investment income has been computed consistently at 4.5 % (2004: 3.75%) per annum.

### 2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements.

#### Basis of accounting for underwriting activities

The company ceased underwriting new business in 1994.

The result for the period reflects adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

#### Premiums

Written premiums comprise adjustments to premiums written in prior accounting periods.

Outward reinsurance premiums are accounted for as they arise.

#### Claims incurred

Claims incurred includes all claims and claims settlement expense payments made in respect of the financial period, and the movement in provision for outstanding claims and settlement expenses and includes claims incurred but not reported, net of salvage and subrogation recoveries.

#### Claims outstanding

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related external claims settlement expenses. Reinsurance and other recoveries are determined by calculating the amount recoverable on recognised gross claims incurred, including prudent estimates for salvage and subrogation recoveries. Where applicable, allowances are made for the non-recoverability of reinsurance and other recoveries. Anticipated reinsurance and other recoveries are shown in the balance sheet as assets.

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### Investments

Listed investments are stated at market value at close of business on 31 December, or on the last stock exchange trading day before the balance sheet date.

### Investment income, expenses and charges

Investment income is accounted for on a receivable basis. Interest income is accrued up to the balance sheet date. Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and cost.

### Allocation of investment return

Investment income, realised and unrealised gains and losses, expenses and charges are reported in the non-technical account and the amounts relating to investments supporting technical provisions are allocated to the technical account.

### Foreign currencies

Transactions in foreign currencies are accounted for in original currencies and translated to sterling at year end rates.

For business recorded by Agents on the company's behalf, all transactions in United States and Canadian dollars are accounted for in original currencies and translated to sterling at year end rates. Transactions in all other currencies are translated to sterling at the appropriate rate of exchange applicable when recorded in the books.

Where foreign currency assets held do not match foreign currency liabilities any resultant gain or loss on such mismatching is transferred after adjustment for the appropriate level of taxation to reserves.

Foreign currency assets and liabilities are translated at the rates of exchange ruling at 31 December.

### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### Cashflow statement

The company has taken advantage of the exemption within Financial Reporting Standard 1 (Revised) not to provide a cash flow statement because it is a wholly owned subsidiary undertaking of Oslo Reinsurance Company ASA.

### Related party transactions

The company has taken advantage of the exemption within Financial Reporting Statement 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) because it is a wholly owned subsidiary undertaking of Oslo Reinsurance Company ASA. The consolidated financial statements of Oslo Reinsurance Company ASA, within which this company is included, can be obtained from the address given in note 19.

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 3 Analysis of general business by class

2005	Total Direct Insurance	Reinsurance	Total	Fire & Other Damage to Property	MAJOR DIRECT CLASSES Liability	Marine , Aviation & Transport	Other
	£	£	£	£	£	£	£
Gross premium written and earned	1.293	44.302	45.595	92	-	194	1.007
Gross claims incurred	626.001	436.288	1.062.289	29.548	687.693	(87.533)	(3.707)
Gross operating expenses	-	(5.408)	(5.408)	-	-	-	-
Gross technical result	627.294	475.182	1.102.476	29.640	687.693	(87.339)	(2.700)
Reinsurance balance	(1.097.690)	(1.246.881)	(2.344.571)	272.142	(1.173.418)	(338.509)	142.095
Net technical result *	(470.396)	(771.699)	(1.242.095)	301.782	(485.725)	(425.848)	139.395

2004	Total Direct Insurance	Reinsurance	Total	Fire & Other Damage to Property	MAJOR DIRECT CLASSES Liability	Marine , Aviation & Transport	Other
	£	£	£	£	£	£	£
Gross premium written and earned	199	26.943	27.142	23	18	158	-
Gross claims incurred	(3.212.068)	(2.196.473)	(5.408.541)	146.346	(3.219.209)	(139.002)	(203)
Gross operating expenses	(182)	400	218	-	(182)	-	-
Gross technical result	(3.212.051)	(2.169.130)	(5.381.181)	146.369	(3.219.373)	(138.844)	(203)
Reinsurance balance	1.456.207	2.200.997	3.657.204	46.563	1.341.528	53.039	15.077
Net technical result *	(1.755.844)	31.867	(1.723.977)	192.932	(1.877.845)	(85.805)	14.874

\* - excluding allocated investment return transferred from non-technical account.

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 4 Prior years' claims provisions

The claims incurred during 2005 and 2004 related wholly to movements on claims provisions established at the previous year end.

### 5 Net operating expenses

	2005 £	2004 £
Reinsurance commissions	<u>5.408</u>	<u>(218)</u>
Net operating expenses	<u>5.408</u>	<u>(218)</u>

### 6 Income from other financial investments

	2005 £	2004 £
Income from other investments	1.743.138	1.705.137
Gains on the realisation of investments	19	21.598
	<u>1.743.157</u>	<u>1.726.735</u>

### 7 Investment expenses and charges

	2005 £	2004 £
Investment management expenses, including interest	71.196	89.526
Losses on the realisation of investments	106.648	1.144.725
	<u>177.844</u>	<u>1.234.251</u>

### 8 Profit on ordinary activities before tax

	2005 £	2004 £
<i>is stated after charging</i>		
Auditors' remuneration:		
Audit	23.058	26.216
Other fees paid to the auditors and their associates	-	8.950

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 9 Directors and Employees

The were no people employed in the operations of the company during 2005 (2004: 0)

Certain personnel and office services were provided by Oslo Reinsurance Company ASA at cost.

Directors emoluments were as follows:

	2005 £	2004 £
Emoluments	-	-
Company contributions to money purchase pension schemes	-	-
Fees payable by third party	<u>157.240</u>	<u>67.272</u>
	<u>157.240</u>	<u>67.272</u>

The were no directors to whom retirement benefits were accruing under final salary pension schemes (2004; nil).

## OSLO REINSURANCE COMPANY (UK) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

#### 10 Taxation

There is no taxation charge in either year, neither in relation to items currently taxable nor arising from timing differences between the treatment of items for taxation and accounting purposes, due to tax losses carried forward for which no deferred tax asset has been recognised.

The company has further tax losses available for offset against any suitable future profits, the amount of which has not yet been agreed with the Inland Revenue. No deferred tax asset has been recognised in respect of these losses as the Directors do not consider it more likely than not that these losses will be utilised in the foreseeable future.

#### 11 Other financial investments

	2005 Market Value £	2005 Cost £	2004 Market Value £	2004 Cost £
Debt securities and other fixed income securities	<u>27.590.790</u>	<u>27.942.273</u>	<u>25.938.133</u>	<u>26.752.380</u>

Included in the above were investments:

Listed on the UK Stock Exchange	18.592.242	18.869.067	19.492.123	19.527.585
Listed on other investment exchanges	8.998.548	9.073.206	6.446.010	7.224.795

Other financial investments include a total of £1.8m (2004 : £1.8m) pledged by way of Letters of Credit in favour of ceding companies.

#### 12 Debtors arising out of direct insurance operations

Debtors arising out of direct insurance operations are all owed by intermediaries.



# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 13 Other debtors

	2005 £	2004 £
VAT recoverable	209	2,543
Other	24,601	9,354
	<u>24,810</u>	<u>11,897</u>

### 14 Called up share capital

	2005 £	2004 £
Authorised, issued and fully paid 26,000,000 Ordinary shares of £1 each	<u>26,000,000</u>	<u>26,000,000</u>

### 15 Reserves

At beginning of year		Profit and loss account £ (12,923,247)
Currency translation differences on foreign currency net investments		(231,611)
Retained loss for the year		(203,233)
At end of the year		<u>(13,358,091)</u>

### 16 Reconciliation of movements in shareholder's funds

	2005 £	2004 £
Loss for the financial year	(203,233)	(854,397)
Currency translation differences on foreign currency net investments	(231,611)	84,322
Net change in shareholder's funds	<u>(434,844)</u>	<u>(770,075)</u>
Brought forward shareholder's funds	13,076,753	13,846,828
Carried forward shareholder's funds	<u>12,641,909</u>	<u>13,076,753</u>

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 17 Technical provisions

<i>Claims outstanding, all classes</i>	Gross Amount £	Reinsurance Amount £	Net Claims Outstanding £
At beginning of year	37,566,721	21,049,722	16,516,999
Currency revaluation	3,363,999	1,956,990	1,407,009
Movement in the provision	<u>(8,286,767)</u>	<u>(9,136,731)</u>	<u>849,964</u>
At end of year	<u>32,643,953</u>	<u>13,869,981</u>	<u>18,773,972</u>

The amount included as claims outstanding is set by the directors based on certain statistical and other techniques of estimation. Regular reviews of the claims outstanding are performed by external consulting actuaries. The most significant of these estimation techniques are;

#### Marine and Aviation claims:

Accumulation losses, which are claims arising from the accumulation of underlying claims from a single event by the Company's cedants are assessed by measuring the actual claims experience during a given period against projections of development made at start of the period. Projections of future development are then adjusted on a basis consistent with actual experience.

The chain ladder method is applied to attritional claims, which are all claims other than accumulation losses, to estimate claims outstanding. This method applies development factors, based on historic claims experience, to estimate expected future claims development.

#### Asbestos claims:

Estimates of claims outstanding on asbestos claims are based upon an exposure analysis backed up by benchmarking the results against other analyses and relevant market benchmarks.

The analysis involves stratifying all the insureds into tiers of expected severity and estimating the cost of claims from new unreported incidents on previously unaffected policies, which by definition are not included in the existing data. All of these steps involve the application of a significant degree of professional expertise and judgement.

The majority of these estimation techniques assume recorded historic claims experience is a good predictor of future claims development. Therefore the techniques are dependent on the quality of claims data available, the extent to which accumulation loss and other unusual claims are identified and dealt with, and changes in the future legal environment that might impact the reinsurer's liability and the cost of future claims.

#### Willis Faber Underwriting Management (WFUM) Pool

The company is a participant in the WFUM pool. Following unsuccessful arbitration concerning reinsurance coverage, Sovereign, a 50 % participant in the pool and a Willis Group Ltd subsidiary, was placed in liquidation in July 1997.

Following the liquidation of Sovereign, the Willis Group Ltd entered an agreement with the remaining pool members concerning the conduct and funding of the administration of WFUM and the run-off of the pool. As set out in note 1 in drawing up the accounts the directors have considered the likely future run-off costs of the company as compared to the future investment income. On the basis that the income exceeded the costs no provision has been made for the future costs of run-off.

<i>Claims outstanding, WFUM</i>	Gross Amount £	Reinsurance Amount £	Net Claims Outstanding £
At beginning of year	19,714,336	10,445,009	9,269,327
Currency revaluation	2,043,025	(1,120,833)	3,163,858
Movement in the provision	<u>(6,876,582)</u>	<u>(5,501,420)</u>	<u>(1,375,162)</u>
At end of year	<u>14,880,779</u>	<u>3,822,756</u>	<u>11,058,023</u>

# OSLO REINSURANCE COMPANY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005 (continued)

### 18 Material uncertainties

The company is subject to material uncertainties as described below.

#### Asbestosis claims:

A significant proportion of the business written by the Company, particularly through the WFUM Pool, provided asbestosis coverage. The estimation of provisions for outstanding claims on asbestosis exposures is subject to uncertainties that are generally greater than those encountered for other classes of business. A significant issue is the long delay in reporting losses because the onset of illness and disability from exposure to harmful conditions may only become apparent many years, up to 40 years or more, later. There may also be complex technical and legal issues on policy coverage and the identity of the insureds. As a consequence traditional estimation techniques cannot wholly be relied on and more specialised techniques are employed for these types of exposure. However, the ultimate cost of claims arising on asbestosis exposures remain highly uncertain.

#### Reinsurance recoveries:

The company has a comprehensive retrocession programme and the anticipated recoveries under this programme are significant. Claims will fall to be settled by the company for many years into the future. Whilst the directors are satisfied that adequate provision has been made for doubtful recoveries the company is dependent upon the continuing ability of its retrocessionaires to respond to claims made. Since some of these retrocessionaires are in financial difficulties and disputes may arise with others in the future there is considerable uncertainty surrounding the amounts which may ultimately be recoverable.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amount of the provision are reflected in the financial statements in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly both internally and by external actuarial advisors.

### 19 Ultimate parent company

The company is 100 % owned by and consolidated into the accounts of Storebrand ASA, incorporated in Norway. Oslo Reinsurance Company ASA, a company incorporated in Norway, is the parent undertaking of the smallest group for which group financial statements are produced.